



**arizona's
water &
wastewater
funding source**

About WIFA

WIFA is an independent agency of the state of Arizona and is authorized to finance the construction, rehabilitation and or improvement of drinking water, wastewater, wastewater reclamation, and other water quality facilities. Generally, WIFA offers borrowers below market interest on loans for up to one hundred percent of eligible project costs.

As a "bond bank," WIFA is able to issue water quality bonds on behalf of communities for basic water infrastructure. Through active portfolio and financial management, WIFA provides significant savings due to lower interest rates and shared or reduced closing costs. WIFA is able to lower a borrower's interest costs to between seventy and one hundred percent of WIFA's tax-exempt cost of borrowing.

WIFA's principal tools for providing low interest financial assistance include the Clean Water Revolving Fund for publicly held wastewater treatment projects and the Drinking Water Revolving Fund for both publicly and privately held drinking water systems. Both funds are capitalized by contributions from the state and the U.S. Congress.

WIFA also manages a Technical Assistance (TA) program. The TA program offers pre-design and design grants to all eligible wastewater and drinking water systems. The purpose of the TA program is to enhance project readiness to proceed with a WIFA project construction loan. Both pre-design and design loans are also available.

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Vision

WIFA’s vision is to guide our resources to communities with the greatest need to maintain and enhance Arizona's quality of life.

Mission

WIFA's mission is to maintain and improve water quality in Arizona by providing financial assistance and technical assistance for basic water infrastructure.



STATE OF ARIZONA

JANET NAPOLITANO
GOVERNOR

OFFICE OF THE GOVERNOR
1700 WEST WASHINGTON STREET, PHOENIX, AZ 85007

MAIN PHONE: 602-542-4331
FACSIMILE: 602-542-7601

December 2005

Dear Members of the Legislature and Citizens of Arizona:

Protecting the state's precious water resources and building the new Arizona economy are two of my top priorities as Governor. I affirm this commitment by supporting agencies that understand and make efforts to address challenges the prolonged drought and growing communities present in Arizona communities.

The Water Infrastructure Finance Authority of Arizona is one of those agencies. WIFA protects Arizona's water and helps communities develop the water infrastructure needed to grow and prosper. WIFA accomplishes its mission through its financial and technical assistance programs that maintain and improve water quality in Arizona.

WIFA is raising the bar in its contribution to Arizona's economy. As a premier financial institution in both Arizona and nationally, the agency originates over \$100 million annually in community wastewater and drinking water investments. Infrastructure projects are an economic investment in Arizona because they bring jobs to local communities and provide long-term solutions to clean water and drinking water challenges.

The funds WIFA provides Arizona's communities have grown because of smart utilization of WIFA's federal allocations. This year, Arizona received an increase in the Drinking Water State Revolving Fund capitalization grant from the U.S. Congress but faced a major cut in its Clean Water State Revolving Fund allocation. I continue to fight for a needs based formula that accurately reflects the state's clean water needs.

With the natural disasters Arizona has faced, I was proud to sign into law WIFA's Emergency Funding bill (SB1267). This legislation allows WIFA to provide communities with funding quickly during emergency situations and serves as an effective use of the state's water infrastructure funding resources.

I offer my sincere appreciation to WIFA Board Chairman Steve Owens, the WIFA Board of Directors and the WIFA staff for their outstanding record of achievement and dedication to serving Arizona's communities. With appreciation of the key financial and environmental role it plays, WIFA's programs will continue to benefit our citizens by maintaining and enhancing Arizona's natural resources, public health and quality of life.

Yours very truly,


Janet Napolitano,
Governor



Janet Napolitano
Governor



Stephen A. Owens
Chairman

Water Infrastructure Finance Authority of Arizona

Jay R. Spector
Executive Director

December 2005

As director of the Arizona Department of Environmental Quality (ADEQ), I have had the opportunity to serve as chairman of the WIFA Board of Directors during the past three years. As Arizona's water and wastewater funding source, WIFA is an agency with a successful track record. This annual report highlights some of our achievements for 2005. ADEQ and WIFA enjoy a close working partnership. This partnership has enabled us to effectively meet ongoing challenges, such as the federally-mandated arsenic standards, sustainable growth and infrastructure funding.



Stephen A. Owens,
WIFA Chairman and
Director
of the Arizona
Department of
Environmental Quality

Helping Communities Meet Federal Arsenic Standard

In an effort to help commonalities meet the January 23, 2006 federal arsenic standard, WIFA and ADEQ teamed up and presented workshops around the state. WIFA also made funding arsenic related projects a top priority. Those projects were put at the top of the list and were moved through the funding process as quickly and efficiently as possible.

Meeting the Funding Challenges

Although Arizona has made significant strides in water quality, our continued responsiveness to future water quality requirements is highly dependent on revisiting the state revolving fund formula which is based on outdated 1970s population figures and infrastructure needs.

In August, growing states like Arizona faced a tough hit when federal funding for the SRF was cut by \$190 million, reducing Arizona's share by \$1.5 million to \$6.5 million. The cuts have a negative impact on Arizona's ability to meet the demand for new infrastructure and improvements to existing systems. Over the last two years, the clean water SRF absorbed \$450 million in cuts. A consistent and more accurate funding mechanism needs to be tied to the clean water SRF to ensure that the states with the greatest need are given the resources to meet that need.

On the other hand, due to a major increase in identified drinking water infrastructure needs in Arizona, WIFA received a drinking water capitalization grant award of \$23 million, a \$14 million increase over last year. This allows WIFA to continue to make arsenic related projects a priority and guide them through the funding process more quickly so that water systems can meet the new federal standard.

WIFA has provided communities throughout Arizona with funding for critical drinking water and wastewater infrastructure. WIFA plays an invaluable role in protecting Arizona's precious water supplies, ensuring safe drinking water and providing a foundation for sound growth across the state. WIFA's accomplishments this past year point to continued progress for the future.

Very Truly yours,

A handwritten signature in dark ink, appearing to read "S. Owens".

Stephen A. Owens, Chairman
WIFA Board of Directors

Goal 1: Award WIFA's resources in accordance with the needs of Arizona's citizens.

As shown in Table 1, in Funding Cycle 2005, WIFA continues to provide financial assistance to a diverse number of communities with varying levels of water quality and infrastructure needs. By balancing communities' relative environmental health and financial needs, WIFA is able to prioritize and expedite project funding in an efficient and timely manner.

Table 1

Projects Funded by Priority List Ranking				
Priority List Rank	Clean Water Revolving Fund		Drinking Water Revolving Fund	
	FY04	FY05	FY04	FY05
Projects in Top 10				
# of Projects	7	3	3	3
\$ of Projects	\$24,004,141	\$12,795,000	\$2,113,750	\$1,199,593
Projects in Top 25				
Cumulative # of Projects	9	5	4	8
Cumulative \$ of Projects	\$27,604,141	\$40,269,950	\$5,446,030	\$6,645,870
Projects in Top 50				
Cumulative # of Projects	13	9	6	11
Cumulative \$ of Projects	\$45,257,738	\$80,219,062	\$36,399,466	\$25,199,034
Remainder of List				
Cumulative # of Projects	13	9	9	13
Cumulative \$ of Projects	\$45,257,738	\$80,219,062	\$43,318,812	\$30,776,612

During Funding Cycle 2005, WIFA dedicated its resources to improving the water and wastewater infrastructure of cities, towns, and tribes of all sizes throughout Arizona. Table 2 illustrates how WIFA dollars were disbursed to loan recipients by population.

A vital measure of the benefit WIFA loans provide to communities throughout Arizona is the savings to tax/rate payers when compared to traditional market financing. In Funding Cycle 2005, WIFA's below market interest rates and reduced closing costs will save Arizona communities an estimated \$31 million over the term of the loans. Since the inception of the Authority, WIFA conservatively estimates total savings of \$208 million to tax/rate payers.

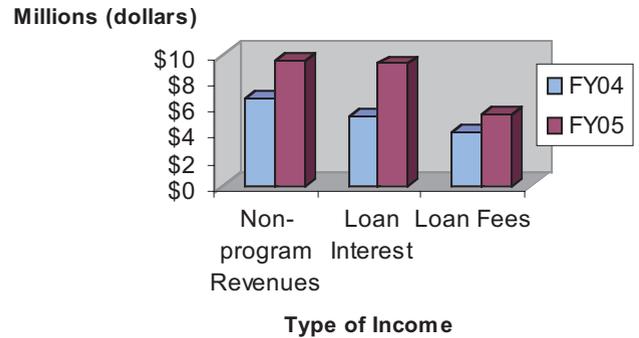
Table 2

Projects Funded by Population Category				
Population Category	Clean Water Revolving Fund		Drinking Water Revolving Fund	
	FY04	FY05	FY04	FY05
Less than 2,500				
# of Projects	1	0	2	5
\$ of Projects	\$300,000	\$0	\$167,000	\$1,068,947
Between 2,501 & 5,000				
Cumulative # of Projects	3	3	5	8
Cumulative \$ of Projects	\$1,056,333	\$39,874,950	\$3,857,630	\$4,727,551
Between 5,001 & 10,000				
Cumulative # of Projects	7	3	6	11
Cumulative \$ of Projects	\$18,365,651	\$39,874,950	\$5,804,380	\$14,430,012
Above 10,001				
Cumulative # of Projects	13	9	9	13
Cumulative \$ of Projects	\$45,257,738	\$80,219,062	\$43,318,812	\$30,776,612

Goal 2: Maintain the fiscal integrity of WIFA’s funds and assure continuous enhancement for future generations.

In addition to maintaining fiscal integrity, WIFA invests its monies to ensure the fund’s growth keeps pace with inflation. Total non-program earning increased by approximately \$2.9 million, or 43.3% during Fiscal Year 2005 shown in Figure 1. WIFA loan interest revenues increased by 77.2% from the previous year. Loan serving fees increased by \$1,407, 891.

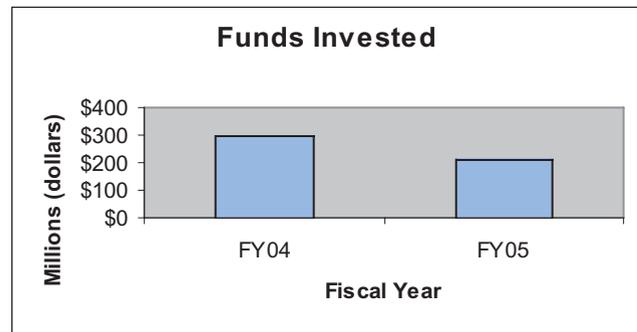
Income By Fiscal Year



Further evidence of WIFA’s commitment to preserve and grow the funds is shown in WIFA’s Statement of Financial Position (page 12-14).

Figure 2 reflects a decrease in WIFA's investment portfolio, which provides funds for a myriad of uses by the Authority. The dollars invested are primarily used to originate loans to WIFA borrowers as well as provide additional security to our bond portfolio. Additionally, interest generated from the invested funds helps subsidize WIFA borrower interest rates.

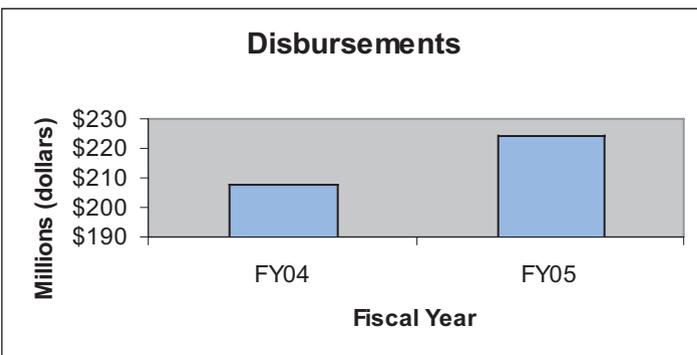
Funds Invested



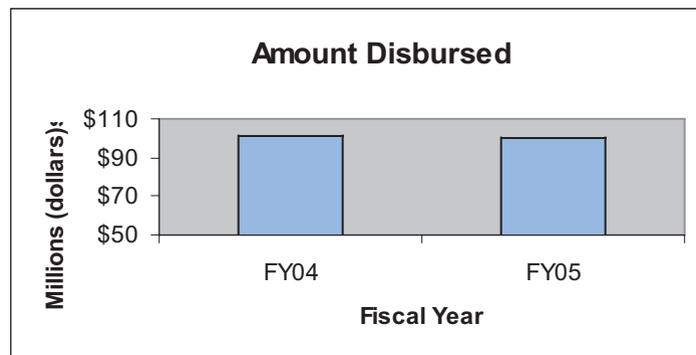
Goal 3: Facilitate access to financial and technical assistance and efficiently deliver these services.

The number of loans and the amount of loan disbursements made by WIFA is shown in Figure 3. There was an 8% increase in the number of disbursements since fiscal year 2005. The amount disbursed decreased from the previous fiscal year. \$100,443,077 was disbursed by WIFA in 2005, roughly a million dollars less than in 2004.

Disbursements



Amount Disbursed



During Funding Cycle 2005, WIFA provided financial assistance to a diverse portfolio of borrowers. The presence of strong borrowers within the portfolio benefits all program participants.

As shown in Figure 4, WIFA provided fewer loans in Funding Cycle 2005 to borrowers with strong credit ratings as compared to those who had no credit rating at all.

Funding Cycle '05 Loans by Rating Category
\$114,979,534

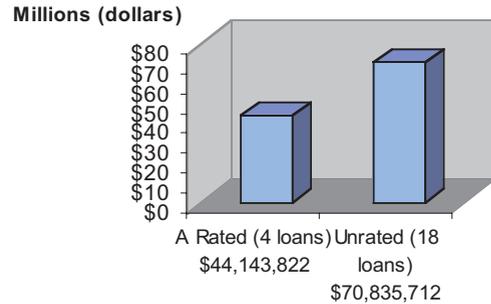


Figure 4

Goals 4: Efficiently administer WIFA programs within a positive work environment

WIFA seeks to reduce operating expenses and secure services from those qualified to provide that service at the least cost. Figure 5 shows the allocation of operating expenditures.

WIFA's FY 2005 budget (July 2004 - June 2005) decreased. For FY 2006 (July 2005 - June 2006), the WIFA Board adopted an operating budget of \$1,662,010. This is an over \$50,000 reduction from the approved FY 05 budget of \$1,712,685. WIFA continues to operate at levels substantially below its budget authority as indicated in Figure 6.

Budget Compared to Expenditures

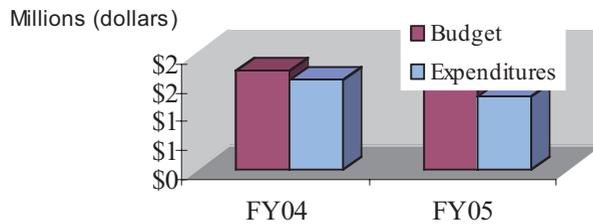


Figure 5

Operating Expenditures (actual) FY 05-\$1,262,315

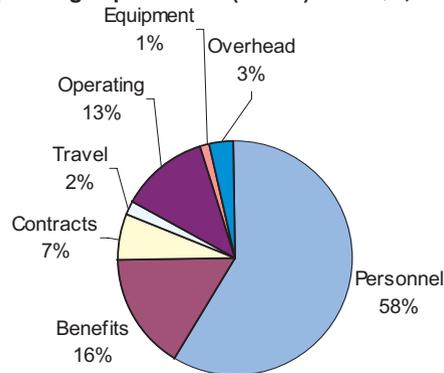


Figure 6

Funding Cycle 2005 Activity

Buckskin Sanitary District \$30,000 (TA)
City of Bisbee \$7,500 (TA)
City of El Mirage \$30,000 (TA)
City of Flagstaff \$23,100,000 (FA)
City of Tucson \$7,395,000 (FA)
Country Roads Improvement District \$4,374,950 (FA)
Fawnbrook Domestic Water Improvement District \$35,000 (TA)
Lake Havasu City \$6,220,000 (FA)
Mogollon Domestic Water Improvement District \$20,000 (TA)
Pima County \$1,952,112 (FA)
Town of Queen Creek \$34,000,000 (FA)
Town of Clarkdale \$35,000 (TA)
Town of Florence \$1,000,000 (FA)
Town of Miami \$12,500 (TA)
Town of Quartzsite \$10,000 (TA)
Town of Taylor \$1,500,000 (FA)
Virgin River Domestic Wastewater Improvement District \$35,000 (TA)

Funding Cycle 2004 Activity

Bullhead City \$12,918,443 (FA)
Bullhead City \$35,000 (TA)
City of Douglas \$12,500 (TA)
City of Eloy \$35,000 (TA)
City of Kingman \$12,500 (TA)
City of Tucson \$2,997,000 (FA)
Gila Resources, Inc. \$35,000 (TA)
Lake Havasu City \$3,3560,000 (FA)
Lake Havasu City \$5,490,000 (FA)
Lake Havasu City \$5,075,000 (FA)
Overgaard Domestic Water Improvement District \$300,000 (FA)
Pima County \$18,015,219 (FA)
Pinal County \$22,918 (TA)
Pinal Sanitary District and Regional Wastewater Partners \$35,000 (TA)
Pima County \$585,388 (FA)
Pima County \$115,217 (FA)
Pima County \$2,078,1049 (FA)
Raven Ridge Community Facilities District \$925,446 (FA)
Somerton \$4,400,000 (FA)
Town of Clarkdale \$8,750 (TA)
Town of Florence \$20,000 (TA)
Town of Prescott Valley \$9,317,470 (FA)
Town of Springerville \$10,500 (TA)
Town of Taylor \$156,333 (FA)
Yavapai-Apache Nation Economic Development Authority \$35,000 (TA)
Yuma County Housing Department \$3,750 (TA)



Funding Cycle 2005 Activity

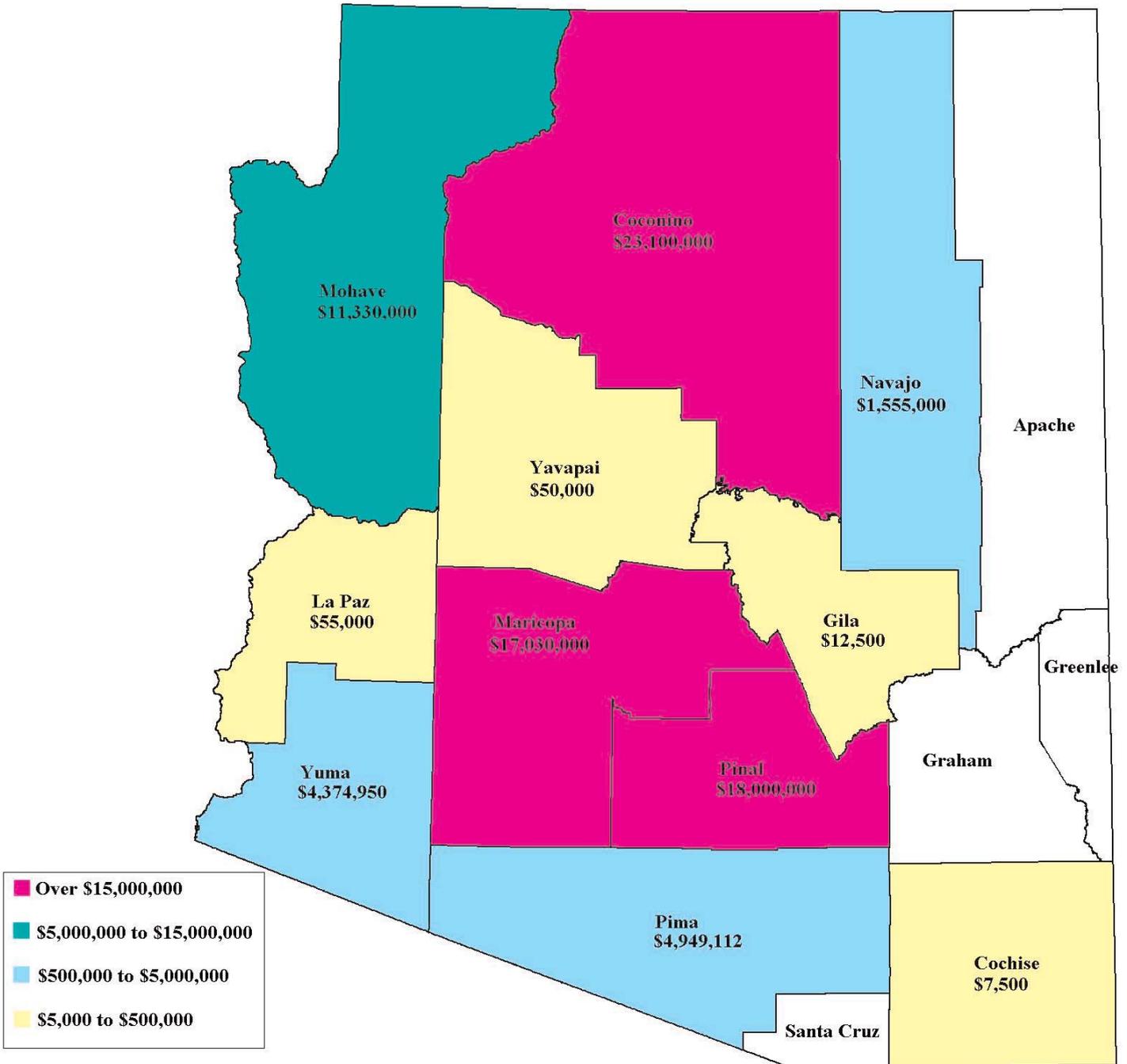
Beaver Dam Water Company \$170,703 (FA)
 Camp Verde Water System \$26,250 (TA)
 City of Globe \$5,000,000 (FA)
 City of Somerton \$35,000 (TA)
 City of St. Johns \$35,000 (TA)
 City of Williams \$35,000 (TA)
 Cosanti Foundation \$22,500 (TA)
 Double G Mobile Park \$7,500 (TA)
 Elfrida Domestic Water Users Association \$150,000 (FA)
 Flowing Wells Irrigation District \$966,600 (FA)
 Green Valley Domestic Water Improvement District \$1,700,000 (FA)
 Lagoon Estates Water Company \$26,250 (TA)
 Marana Domestic Water Improvement District \$1,617 (TA)
 Maricopa Mountain Water Company \$20,000 (TA)
 Metro Domestic Water Improvement District \$12,350,000 (FA)
 Mountain Glenn Water Service \$182,993 (FA)
 Naco Water Company, LLC \$35,000 (TA)
 North Mohave Valley Corporation \$250,000 (FA)
 Pineview Water Company \$577,578 (FA)
 Rainbow Acres \$26,250 (TA)
 Thunderbird Farms Domestic Water Improvement District \$21,000 (TA)
 Town of Jerome \$30,000 (TA)
 Town of Patagonia \$35,000 (TA)
 Valencia Water Company \$2,831,026 (FA)
 Village of Lower Moencopi \$10,000 (TA)
 Water Utilities of Community Facilities District \$3,002,461 (FA)
 Water Utilities of Greater Tonopah \$500,000 (FA)
 Water Utilities of Greater Tonopah \$11,250 (TA)
 Water Utilities of Greater Buckeye \$165,251 (FA)
 Water Utilities of Greater Buckeye \$3,750 (TA)
 Woodruff Domestic Water Improvement District \$50,000 (FA)

Funding Cycle 2004 Activity

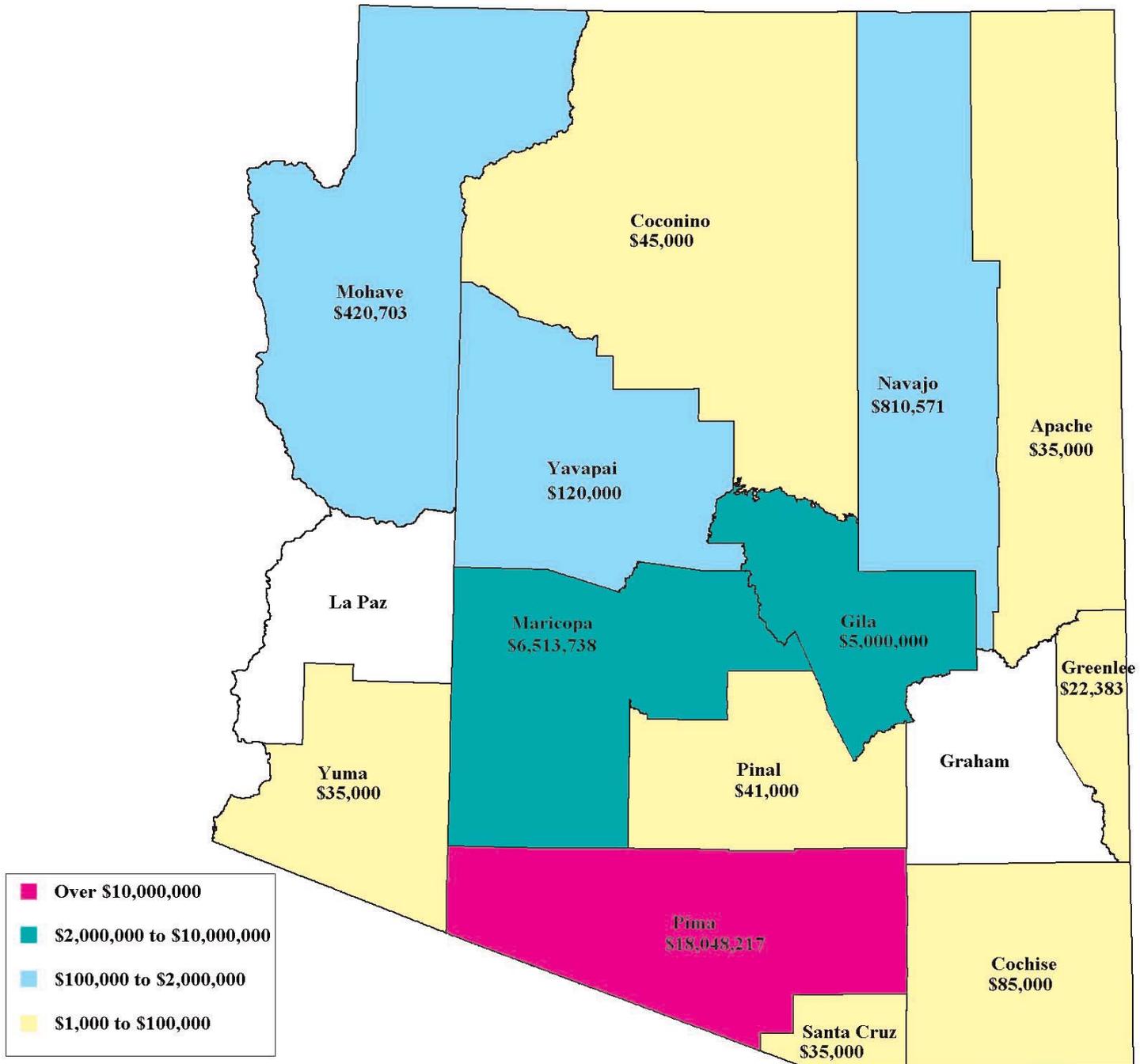
Alpine Water System Inc. \$11,000 (TA)
 Avra Water Company \$1,946,750 (FA)
 Carefree \$3,332,280 (FA)
 Centennial Park Domestic Water Improvement District \$25,000 (TA)
 Chandler Heights Irrigation District \$203,000 (FA)
 City of Benson \$3,750 (TA)
 City of Globe \$5,000,000 (FA)
 City of Tucson \$2,500,000 (FA)
 Flowing Wells Irrigation District \$31,000 (TA)
 Golden Valley County Improvement District \$2,250 (TA)
 Graham County Utilities \$35,000 (TA)
 Livco Water & Sewer Company \$18,000 (TA)
 Mountain Glen Water Service, Inc. \$35,000 (TA)
 Mt. Lemmon Domestic Water Improvement District \$1,050,000 (FA)
 Paloma Irrigation & Drainage District \$40,000 (TA)
 Picacho Peak Water Company \$30,000 (TA)
 Picacho Water Improvement Corporation \$19,000 (TA)
 Ponderosa Park Domestic Water Improvement District \$25,000 (TA)
 Sitgraves Water Co. \$25,000 (TA)
 SoHi Domestic Water Improvement District \$18,000 (TA)
 Walden Meadows Community Co-Op \$18,000 (TA)



The map below shows the combined loan and grant funding from the Clean Water Revolving Loan Fund by county in Arizona for calendar year 2005.



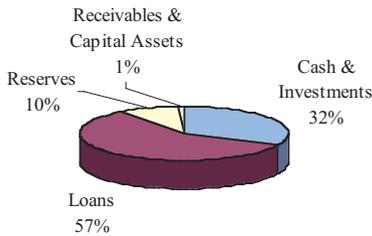
The map below shows the combined loan and grant funding from the Drinking Water Revolving Loan Fund by county in Arizona for calendar year 2005.



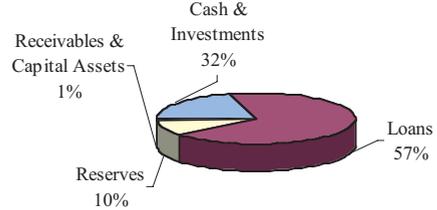
Assets

During Fiscal Year 2005, WIFA's assets decreased by \$1.8 million as compared to Fiscal Year 2004. In the last three years, WIFA assets have nominally decreased from \$716.5 million to \$714.7 million. The decrease can be attributable to a decrease in WIFA's monies for loan disbursements due to borrower loan draw requests loan as well as additional cuts in federal and state contributions.

**WIFA's Assets -- \$ 716.5M
FY 04**



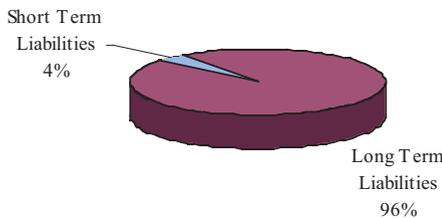
**WIFA's Assets -- \$ 714.7M
FY 05**



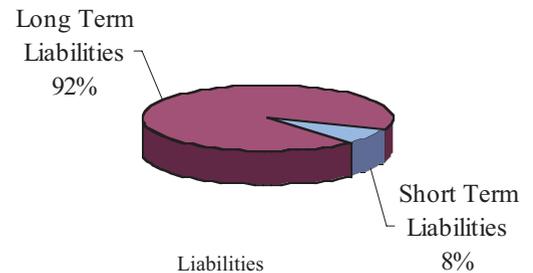
Liabilities

WIFA's liabilities decreased from the previous year by \$12.5 million primarily due to retirement of long-term debt obligations. These liabilities are directly linked to the Authority's leveraged loan portfolio and are also secured by investment reserves managed by WIFA.

**WIFA's Liabilities -- \$444.8 M
FY 04**



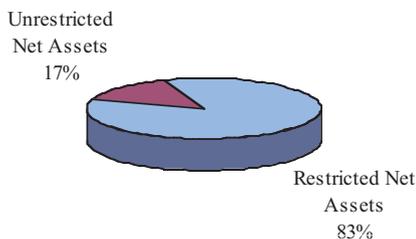
**WIFA's Liabilities -- \$432.3M
FY 05**



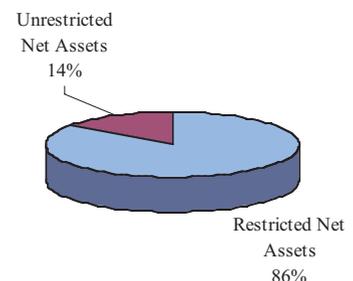
Net Assets

WIFA's net assets continue to grow rapidly. In 2003, net assets were \$238.7 million. By fiscal year 2004, net assets reached \$271.7 million. This year net assets increased to \$282.4 million.

**WIFA's Net Assets -- \$ 271.7M
FY 04**



**WIFA's Net Assets -- \$ 282.4M
FY 05**



STATEMENT OF NET ASSETS

ASSETS	FY04	FY05
Cash	\$232,328,770	\$147,746,319
Investments	68,081,810	68,081,810
Accrued Interest Receivable	3,437,416	5,339,462
Capital Assets (net of depreciation)	15,638	11,728
Debt Management Fees Receivable	880,331	2,109,805
Loans	409,169,550	489,071,853
Deferred Bond Issue Costs	2,579,427	2,406,168
Deferred Loss On Retirement Of Bonds	0	0
TOTAL ASSETS	\$716,492,942	\$714,767,145
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$0	\$0
Accrued Payroll	20,310	15,662
Compensated Absences	52,798	26,014
Interest Payable	5,105,470	5,027,882
Bonds Payable	417,400,000	405,675,000
Unamortized Bond Premiums	29,887,221	28,206,089
Deferred Amount on Retired Bonds	(9,190,263)	(8,608,526)
Deferred Administrative Funds (Loaned)	0	0
Loan Reserve	1,568,195	2,022,108
TOTAL LIABILITIES	\$444,843,731	\$432,364,229
NET ASSETS		
Net assets invested in capital assets	15,638	11,728
Restricted for capitalization grants	232,602,952	240,079,736
Unrestricted	39,030,621	42,311,457
TOTAL NET ASSETS	\$271,649,211	\$282,402,921
TOTAL LIABILITIES AND NET ASSETS	\$716,492,942	\$714,767,150

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS**

PROGRAM REVENUES	FY04	FY05
Interest Income	\$5,240,954	\$9,287,547
Debt Management Fees	4,066,852	5,474,743
TOTAL PROGRAM REVENUE	<u>\$9,307,806</u>	<u>\$14,762,290</u>
 PROGRAM EXPENSES		
Interest Expense	\$12,876,283	\$17,884,713
Depreciation	29,032	3,910
Administration & Set Asides	2,405,960	2,448,673
Hardship Grant Expense	3,179	0
Financial Assitance	188,475	180,374
Technical Assitance	625,080	519,062
TOTAL EXPENSES	<u>\$16,128,009</u>	<u>\$21,036,732</u>
 NET INCOME	(\$6,820,203)	(\$6,274,442)
 NONPROGRAM REVENUES		
Adminstrative Grants	\$1,696,915	\$971,462
Investments Earnings	4,966,405	8,579,906
Total Nonprogram Revenues	<u>\$6,663,320</u>	<u>\$9,551,368</u>
 INCOME BEFORE CONTRIBUTIONS	(\$156,883)	\$3,276,926
 CONTRIBUTED CAPITAL - FEDERAL	\$30,503,773	\$5,031,684
CONTRIBUTED CAPITAL - STATE	2,918,875	2,445,100
CHANGE IN NET ASSETS	<u>\$33,265,765</u>	<u>\$10,753,710</u>
 TOTAL NET ASSETS - Beginning of Year	\$238,667,168	\$238,667,168
Cummulative effect of change in accounting principal		
Prior Period Adjustment	<u>(283,722)</u>	
 TOTAL NET ASSETS - Beginning of Year- Restated	238,383,446	271,649,211
TOTAL NET ASSETS - End of year	<u>\$271,649,211</u>	<u>\$282,402,921</u>

The financial statements for WIFA for the year ended June 30, 2005 have been audited by an independent certified public accounting firm, Henry & Horne, P.C. Copies of the complete audited financial statements are available upon written request to WIFA, 1110 W.Washington #290, Phoenix, Az 85007.

Board of Directors**Stephen A. Owens, Chairman**

Arizona Department of Environmental Quality

Paul T. Gardner, Vice Chairman

Water systems which serve more than 500 customers

Gerald Flannery

Cities of more than 50,000 residents and counties of more than 500,000 residents

Steve Olea

Arizona Corporation Commission

William Garfield

Water systems which serve less than 500 customers

Cynthia Seelhammer

Counties of less than 500,000 residents

Ron Gray

Arizona Department of Water Resources

E. Blaine Vance

Arizona Treasurer's Office

Gail Hackney

Sanitary districts

Seth Mones

Arizona Department of Commerce

Joseph A. Hughes

Cities more than 50,000 residents and counties of more than 500,000 residents

WIFA Staff

Jay R. Spector, *WIFA Executive Director*

Jon Bernreuter, *Environmental Specialist*

Manny Brizar, *Accountant*

Julie Flores, *Accountant*

Melissa Hawkins, *Business Manager*

Angelica Martinez, *Loan Processing and Documentation Specialist*

Yolanda Mendoza, *Administrative Assistant*

Mark A. Ramirez, Sr., *IT Specialist III*

Dennis Schiefen, *Network Administrator*

Mona Spellman, *Controller*

Tiffany N. Troidl, *Communications Director*

Angie Valenzuela, *Senior Loan Officer*